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OPTIONS FOR ESTABLISHING AN ENERGY CONSERVATION CONSOLIDATED GR--ETC(U)
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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ENERGY AND MINERALS
DIVISION

11/8 Jul 1981

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LEVEL II

The Honorable Richard L. Ottinger, Chairman
Subcommittee on Energy Conservation and Power
Committee on Energy and Commerce
House of Representatives

14 GAO/EMD 115

Dear Mr. Chairman:

Subject: Options for Establishing an Energy
Conservation Consolidated Grant
Program, (EMD-81-115)

In response to your June 15, 1981, request, we are furnishing you in the enclosure to this letter, our consideration of options for establishing an energy conservation consolidated grant program. As you requested, these options were considered in the context of provisions for (1) measures of accountability for program effectiveness while still giving flexibility to State and local governments, (2) formulas for fund distribution, and (3) either matching or maintenance of effort requirements. We have also included our views on legislative changes to provide more flexibility to certain existing State conservation grant programs should they be continued as categorical grant programs.

We trust that this information will be useful to the Subcommittee in its deliberations.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from its issue date. At that time we will send copies to the chairmen of energy-related congressional committees and make copies available to others upon request.

Sincerely yours,

J. Dexter Peach
J. Dexter Peach
Director

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OPTIONS FOR
ESTABLISHING AN ENERGY
CONSERVATION CONSOLIDATED GRANT PROGRAM

On June 15, 1981, the Chairman, Subcommittee on Energy Conservation and Power, House Committee on Energy and Commerce, requested the General Accounting Office to consider options for establishing an energy conservation consolidated grant program. The Chairman further requested that these options be considered in the context of provisions for (1) measures of accountability for program effectiveness while still giving flexibility to State and local governments, (2) formulas for fund distribution, and (3) either matching or maintenance of effort requirements. Finally, the Chairman requested our views on what could be done, either through legislative or administrative remedies, to improve existing programs and/or provide more flexibility should they be continued as categorical programs.

In addressing the block grant portion of this request, we considered the following three block grant proposals which are under study by the Subcommittee:

- A discussion draft by Representatives Toby Moffett and Edward Markey, entitled "State and Local Energy Block Grant Act of 1981," which is the Subcommittee's primary interest (hereinafter referred to as the Moffett/Markey proposal).
- A discussion draft presented jointly by the National Governors' Association, the National League of Cities, the National Association of Counties, and the United States Conference of Mayors, entitled the "State and Local Energy Block Grant Act of 1981" (hereinafter referred to as the Governors' proposal).
- "The National Home Weatherization Act of 1981," Senate bill 1166 (hereinafter referred to as S. 1166).

The Governors' proposal and S. 1166 would combine all currently authorized State energy conservation programs (low-income weatherization, Energy Extension Service, State Energy Conservation, Schools and Hospitals, Local Government Buildings and Public Care Institutions, and Emergency Energy Conservation) into a block grant program. The Moffett/Markey proposal provides for a similar block grant program but excludes low-income weatherization and Energy Extension Service.

BACKGROUND

The choice of design features for block grants is properly a political function that should be driven by the ultimate objectives the Congress is seeking to achieve. Block grants intended to continue Federal stewardship of national objectives in a more flexible or decentralized manner should have significantly different design features than block grants intended principally to devolve Federal responsibilities back to State and local governments.

In designing a block grant program, the Congress must consider the trade-offs between State and local discretion and Federal control. At one end of the spectrum, block grants may become indistinguishable from general revenue sharing, if, for example, a maintenance of effort provision is not included. On the other hand, detailed Federal eligibility rules, standards, or funding requirements could transform the block grant into a categorical grant, thus lessening any benefits that could be realized from greater State and local discretion. A balance should be sought between the extent of flexibility provided to State and local governments and the degree of accountability to the Federal Government required to assure that the program's national objectives will be met.

A number of different provisions can be incorporated into block grants to facilitate the achievement of national objectives. The provisions considered should be nonintrusively framed to encourage States and localities to meet national objectives in the broadest possible way and provide flexibility. The provisions could encourage achievement of goals without specifying the means to be used.

Following is a discussion of the various provisions that could be considered in the three areas of Subcommittee interest.

- providing measures of accountability for program effectiveness while still giving flexibility to State and local governments,
- formulas for fund distribution, and
- matching or maintenance of effort requirements.

ACCOUNTABILITY REQUIREMENTS

The nature and extent of a Federal role in accountability will be a function of two factors: (1) whether the purposes of the programs make a Federal role appropriate or desirable and

(2) whether the design features of the program make a Federal role possible. If a Federal accountability role is desired, the program should be designed in such a way that it is possible to assess what program funds are spent for and what they are accomplishing. Several important design features and mechanisms would promote this should the Congress desire a Federal role in assessing program efficiency and effectiveness. However, it is important that Federal accountability alternatives be considered in the context of the overall objectives the Congress is trying to achieve.

Among the provisions that could be considered to provide accountability are:

- Planning provisions requiring grantees to prioritize their proposed use of funds.
- Performance goals requiring grantees to achieve broad goals and objectives.
- Oversight requirements for periodic evaluation of program efficiency and effectiveness.
- Specification of required or ineligible activities and activity spending requirements.

Planning provisions

Planning provisions can enable States to better define their own goals and objectives within the parameters of Federal objectives defined for the program. Grantees could be required to specify how they plan to meet national objectives. The required plans could be comprehensive, addressing the goals and objectives for non-federally as well as federally funded activities in the area. Further, the plans could be required to anticipate results-oriented goals and objectives to facilitate evaluations of program results. (A further elaboration on goals is contained in the next section.)

The three proposals under consideration by the Subcommittee contain various planning provisions. The provisions of the Moffett/Markey proposal--requiring a description of the State's energy supply and demand and its energy conservation and renewable resource goals and policies, and a management plan for and description of the planned uses of funds to implement the State plan--are relatively general. The provisions of the Governors' proposal and S. 1166 contain similar requirements, including an added requirement for describing the State's method for monitoring and assessing achievement of its goals and objectives.

Among the features for a State energy plan that could be considered in the proposed energy block grant program are the following, some of which are contained in one or more of the three proposals:

- A description of State energy supply and demand and of its energy goals and policies.
- A forecast of future energy consumption patterns including a description of the likely energy sources and a projection of the need for major energy supply facilities.
- A management plan for, and description of the planned uses of the block grant funds and any other Federal or non-Federal funds. The management plan could include a description of (1) the programs the State will carry out to achieve its energy goals and objectives, (2) the relationship between such programs, its energy forecast and the State's goals and objectives for energy conservation, and (3) methods by which the State will periodically monitor and assess its success in implementing the plan.
- Federal involvement in the State planning effort can be increased, if the Congress wishes to do so, by providing that the State plan be reviewed and approved. Depending on the degree of Federal input desired, this review could be limited to disapproving plans not consistent with legislative and administrative requirements.

Performance goals

Performance goals requiring States and localities to achieve broad goals and objectives can be included, while allowing grantees the flexibility to select the specific means to be used and the funding needed for meeting the objectives.

Each of the three block grant proposals contain statements on goals and objectives. The stated purposes of the Moffett/Markey proposal, which is the Subcommittee's primary interest, are to (1) help to reduce the Nation's dependence on foreign oil through State and local programs to promote efficient use of energy resources and further development of renewable energy sources, (2) provide assistance to State and local governments for the development and effective implementation of national energy policy objectives, and (3) provide State and local governments with greater flexibility in energy program design and implementation.

These purposes establish some very broad goals for the States and localities to meet. In principle, at least, it would be possible to measure the extent to which the first goal is being achieved. The latter two goals, on the other hand, could only be subject to a qualitative assessment. The first goal could be further refined by providing for goals or targets. Such goals could be made mandatory through specific numerical targets established by legislation or agency regulations. Alternatively, the legislation could require the States to establish targets in their plans. Federal agency approval of State plans could ensure that the State established reasonable targets. These goals or targets could be stated as a percentage reduction of energy use or in terms of a minimum cost/benefit ratio for individual projects or measures. In any case, they should be performance or goal oriented in nature without specifying how States are to meet the goals.

It should be pointed out, however, that our work on the State Energy Conservation Program has shown problems in quantifying and evaluating energy savings goals. The State Energy Conservation Program provided for achievement of an energy savings goal of a reduction of 5 percent or more in the projected energy consumption of each State by 1980. However, we reported that the 1980 savings projections for many of the State programs we reviewed were based on optimistic "best case" projections and contained critical assumptions on savings attainable which were inadequately supported and insufficiently evaluated by the Department of Energy (DOE). 1/

Oversight requirements

The Moffett/Markey and Governors' proposals require each grant recipient to keep records and make reports to DOE, including such information as DOE deems necessary to prepare its annual report to the Congress and facilitate an effective audit and performance evaluation. There is no language in S. 1166 concerning oversight requirements.

Oversight of the extent to which block grant funds are being spent to achieve Federal objectives is appropriate to ascertain what the funds are accomplishing. Certain reporting, audit and evaluation provisions could facilitate the ability of the Federal Government to judge the extent to which national objectives are being achieved and, if considered desirable, to assess the efficiency and effectiveness of block grant funded program efforts of the States.

1/"Delays and Uncertain Energy Savings in Program to Promote State Energy Conservation," EMD-80-97, Sept. 2, 1980.

Specific and nationally consistent reporting requirements could be provided. State and local reporting on program expenditures and accomplishments such as servicing of target beneficiary groups, sub-State distribution of funds, and administrative costs incurred, would assist Federal agency monitors and evaluators alike in providing oversight.

Full audit and evaluation requirements could be included to establish routinized mechanisms to assess program performance. The responsibility for audit and evaluation could be allocated among the levels of government in a number of ways. State and local governments could bear primary responsibility for performing both financial and compliance audits as well as evaluations of program efficiency and effectiveness. Under this scheme, the role of Federal agencies would be to provide broad guidance on Federal criteria and general oversight of the adequacy of State and local audits and evaluations. Nationwide evaluations of program effectiveness among all States may also be desirable, necessitating a more direct evaluation role for Federal agencies, perhaps culminating in an annual report.

The establishment of performance goals and planning provisions previously discussed would facilitate the oversight process by establishing a basis for periodic assessment of individual State and overall program progress and effectiveness.

Activity requirements

The legislation can provide that certain type activities (1) must be included in the State's program, (2) are not eligible for funding, or (3) must be funded at a specified percentage level of the State's grant. Although this could encourage a greater concentration of block grant resources on areas of national concern, it would take away from the grantee the flexibility of deciding priorities.

The legislation can specify that activities undertaken shall include but not be limited to certain required activities. While the grantee must include the specified activities, it can set the relative priorities and funding levels among them, taking into account its special needs or conditions. However, it takes away the grantee's flexibility by requiring the funding of an activity that the grantee may not consider germane to its special needs.

Another form of activity requirement is specifying what types of activities may not be undertaken. This would deal with what types of program activities are prohibited, such as subsidizing mass transit fares, or research and development activities. An exception could be provided which would allow States to justify the inclusion of any activity if it met a "critical" need, such as large target audience or if it were particularly cost effective.

Another form of activity requirement is specifying that an activity must be funded at a certain percentage level of the State's grant. An example of this is the requirement in S. 1166 that not less than 65 percent of a grant must be used for low-income weatherization. This is a restrictive type of accountability in that it makes the policy decision for the State by providing that no less than a certain percentage of available funds will be spent on a particular function. Although flexibility as to how to carry out the specified purpose can be provided, the basic policy decision of relative priority is contained in the enacting legislation. Arriving at an acceptable nationwide percentage floor for an activity may be very difficult as the needs and requirements of the States may vary considerably for a stated activity. In fact, it could be argued that national specification of State resource allocations within block grants undermines a principal objective of the block grant concept, i.e., enabling States to better match Federal resources with State and local needs.

ALLOCATION FORMULA

The purpose of an allocation formula is to distribute the program funds among State and local governments. Such formulas often give consideration to factors related to the program's overall objectives, and seek to allocate funds to the areas where the problems are concentrated.

All three block grant proposals being considered by the Subcommittee provide allocation formulas for distributing State grant funds. Two of the proposals authorize funding for local government grants and provide formulas for its distribution.

State grant funds

S. 1166 provides for allocation of funds to the States as follows

- 65 percent to be allocated on the basis of a formula considering the number of low-income households and the amount and availability of fuel or energy used by low-income households;
- 25 percent to be allocated on the basis of a formula considering population and climate; and
- 10 percent to be allocated equally among the States.

The other two proposals provide for allocating funds among the States as follows

- 75 percent on the basis of population, and
- 25 percent equally among the States.

Another factor that could be considered in the program formula for the latter two proposals is the climatic conditions in each State, which may include consideration of heating and cooling degree-days. Inclusion of this factor would recognize varying State climatic conditions affecting energy use.

The existing legislation for the State Energy Conservation Program provides one other allocation factor--energy savings. The Energy Policy and Conservation Act (42 U.S.C. 6321 et seq.) and DOE regulations issued pursuant to the act provide that 35 percent of the funds available under the base program would be divided on the basis of estimated energy savings in calendar year 1980 resulting from implementation of State energy conservation plans. However, as previously pointed out in our September 1980 report, we stated that the 1980 savings projections for many of the State projects we reviewed were based on optimistic "best case" projections and contained critical assumptions on savings attainable which were inadequately supported and insufficiently evaluated by DOE. Therefore, the inclusion of this factor could result in rewarding States that overestimate savings while penalizing States that make a reasonable estimate.

Local government grant funds

The Moffett/Markey and the Governors' proposals authorize a program of grants to local governments. The Moffett/Markey proposal provides a specific fund authorization for local grants; the Governors' proposal provides that 20 percent of the total funds authorized will be for local grants. The stated purpose of the grants to local governments is to encourage them to adopt and implement community plans and programs to achieve significant levels of energy conservation and encourage the use of renewable resources.

The two proposals contain similar allocation formulas as follows:

- Funds are allocated among the States based on formulas which give considerable weight to the extent of poverty and housing overcrowding or age.
- Funds allocated to a State are allocated to three categories of local governments (metropolitan cities and urban counties in metropolitan areas, other units of local government within metropolitan areas, and nonmetropolitan areas) on the basis of the population of each category within the State.

- Funds allocated to the first category--metropolitan cities and urban counties in metropolitan areas--are distributed to each of those cities and counties on the basis of formulas which give considerable weight to the extent of poverty and housing overcrowding or age.
- Funds for the other two categories are to be allocated to those units of government based on a process acceptable to the Governor and statewide organizations representing those units of government.

Since the purpose of providing funds to local governments in the Moffett/Markey proposal is the general encouragement of energy conservation and use of renewables, and low-income weatherization is to remain as a separate program, most of the programs undertaken by the local governments may not be directly related to low-income housing. Therefore, it may not be meaningful to allocate funds based on formulas which are heavily weighted toward poverty and housing overcrowding or age. Since the purposes of the local grant program are similar to those of the State grant program, it may be more meaningful to include the factors discussed above under the State grant program, such as climatic conditions.

MATCHING AND MAINTENANCE OF EFFORT REQUIREMENTS

Matching and maintenance of effort provisions comprise the principal means through which Federal programs influence State and local budgets. Matching provisions require State and local governments to bear a minimum share of program costs as a condition for receiving Federal assistance. Maintenance of effort provisions are designed to prevent State and local grantees from reducing their spending in federally funded program areas.

The aggregate burden on State and local governments has become an important issue due to the rapid growth of Federal matching grant programs over the past 15 years as well as the recent wave of fiscal constraints and expenditure reductions faced by all levels of government. For this reason, their appropriateness and effectiveness have become important issues for the entire public sector.

In a December 1980 report on matching and maintenance of effort requirements, ^{1/} we stated that matching requirements need to be used more sparingly and only where a clearly articulated Federal interest does not conflict with the broader purposes

^{1/}"Proposed Changes in Federal Matching and Maintenance of Effort Requirements for State and Local Governments," GGD-81-7, Dec. 23, 1980.

of Federal grant programs themselves. Maintenance of effort requirements, while usually serving a clear Federal interest, need to be changed to more effectively prevent the substitution of Federal for State and local funds as well as to provide for more State and local budget flexibility by not penalizing bona fide State and local budget reductions.

Matching requirements

The three block grant proposals being considered by the Subcommittee contain matching requirements. For State grants, all require that the State provide matching funds ranging from 15 to 25 percent. S. 1166 starts out with a matching requirement of 15 percent for fiscal year 1982, which increases to 25 percent in fiscal year 1983 and 35 percent in fiscal year 1984. Applicants for grants to local governments are required to provide a 20 percent in-kind match.

In our December 1980 report, we recommended that in general matching requirements should be used more sparingly in Federal grant programs. First, matching requirements can work to screen out those governments most in need of a program but least able to finance a match. As a result, Federal grant funds may not reach the very jurisdictions they were most intended to help. In addition, most Federal grant programs lack the flexibility to ease the requirement for States and localities with low fiscal capability. Thus, we suggest that matching may not be appropriate when the primary purpose of the program is to allocate Federal funds to State and local governments based on need.

Matching requirements may also distort State and local spending priorities by enticing these governments into providing matching for low priority local programs at the expense of higher priority programs not funded by Federal grants. The matching requirements of all Federal grant programs working together can significantly burden the State and local budget process by distorting spending priorities. The effects become particularly painful during times of State and local budget cuts. We found that 17 of 23 fiscally pressed local governments retained their match for Federal programs while disproportionately cutting non-federally funded local programs of higher priority.

We also concluded that matching requirements are not generally needed to control or distribute Federal outlays. With the exception of several open-ended entitlement programs like Medicaid and Aid for Dependent Children, Federal outlays for each program are controlled by appropriations, not the matching requirements. Further, within most programs, Federal dollars are provided to grantees based on a distribution formula. Matching requirements serve no function in the distribution of these funds.

What Federal interest, then, is served by matching requirements? It has been argued that the fiscal stake called forth by matching requirements can induce grantees to become more fiscally responsible and devote greater management attention to federally funded programs. We found, however, that low non-Federal matching requirements (those below 25 percent) generally do not encourage management oversight over program operations or deliberation over program priorities by State or local central management officials. In fact, low match rates can usually be satisfied by in-kind contributions from existing State or local resources. Accordingly, they do not appear to foster any more central management attention than occurs for 100 percent federally funded programs. We did find that match can promote greater management oversight only if the requirement is strong enough to require a significant expenditure increase or fiscal stake by the grantee. Thus, if greater State and local management attention and control is desired by using the matching provision, a relatively high non-Federal matching rate and cash-only contribution provision would be necessary.

Clearly, such a strong matching requirement could frustrate the achievement of national program goals by deterring the participation of those State and local governments lacking either the interest or the fiscal resources required to meet the match. This problem could be dealt with by either providing for an agency waiver of the match for fiscally poor grantees or a variable matching rate that is lower for grantees with less fiscal capacity.

Other grant design features can be used to encourage State and local management attention that do not pose the intergovernmental conflicts created by matching requirements. Our research indicates that the provision of more discretion for grantees over resource allocation promised by block grants may more effectively stimulate State and local central management attention and oversight over Federal programs than matching. This fact was first reported by local officials who noticed that greater attention was given to the no-match Community Development Block Grant program by central local officials than was given to the previous Department of Housing and Urban Development categorical grants that required a local match.

Maintenance of effort

Each of the three block grant proposals would require States to provide non-Federal resources at a specified percentage of the amount allocated to them for the fiscal year involved. These are, in effect, maintenance of effort rather than matching provisions because States must spend a specified amount of their own resources in order to receive the Federal allocation, but they receive no additional Federal funding if they spend more than this amount.

Well-designed maintenance of effort requirements can serve a Federal purpose by ensuring that Federal grant funds are used to support additional program activities and not used to replace State or local support for these activities. Most existing maintenance of effort requirements, however, are not strong enough for this purpose.

Fixed level of effort provisions, which require State and local governments to maintain past spending, are often not updated to keep pace with inflation. Nonsupplant requirements, used to prevent State and local governments from using Federal funds for activities that would otherwise have been non-federally funded, are not enforced by many Federal agencies due to the substantial problems in ascertaining State and local spending intentions.

Stronger requirements, however, could have significant adverse programmatic and fiscal effects by reducing the flexibility available to State and local governments to manage their own resources more effectively. Strong maintenance of effort requirements may discourage some State and local governments from participating in the grant program itself, thereby imperiling the cooperation of State and local governments which many Federal programs have come to need.

In our December 1980 report, we concluded that maintenance of effort requirements must be made more flexible to avoid penalizing bona fide spending reductions as well as program innovation. At the same time, these requirements also need to be standardized to improve Federal implementation and assist State and local governments in their own compliance efforts. We recommended that the Congress strengthen maintenance of effort requirements to prevent fiscal substitution and provide more flexibility by not penalizing bona fide spending reductions.

REMEDIES TO IMPROVE EXISTING
PROGRAMS AND PROVIDE
MORE FLEXIBILITY

The existing legislation for programs concerning low-income weatherization and State energy conservation contains a number of requirements which could be eliminated or updated to provide States with greater flexibility. We have no suggestions for changes to provide greater flexibility in the programs related to Energy Extension Service, Schools and Hospitals and Emergency Energy Conservation.

Low-income weatherization

The existing low-income weatherization program legislation contains some definitions and limitations that restrict the States in type of services offered and program costs. The

Congress could consider removing some or all of these restrictions and either provide that they be established by DOE in regulations, or by the States in their plans.

Among the principal restrictions are

- a definition of "weatherization materials" which limits eligible weatherization work to the items listed in the definition,
- a limit of \$150 per unit for incidental repairs,
- a limit of 10 percent of grant funds to be used for administrative purposes with not more than one-half of this amount going to the State.

Removal of these limitations would provide greater flexibility to the States. However, it could also cause considerable variation among the States in the type and extent of weatherization services provided, resulting in unequal treatment of low-income persons among States.

State Energy Conservation Program

The State Energy Conservation Program legislation requires State plans to include eight measures--lighting and thermal building standards, promotion of carpools, vanpools and public transportation, mandatory energy efficient State procurement standards, a traffic law or regulation permitting a right turn at a red stop light, public education, energy audits, and coordination. Consideration could be given to removing some or all of these measures as mandatory, and giving States the flexibility of deciding whether or not to include these measures in their plans.

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